

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>City of Richmond</u>	County Macomb
Audit Date June 30, 2005	Opinion Date July 29, 2005	Date Accountant Report Submitted To State: December 21, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- |   |   |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132])   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): <b>PLANTE &amp; MORAN, PLLC</b>			
Street Address 10 South Main, Suite 200	City Mount Clemens	State MI	ZIP 48043
Accountant Signature 			

# **City of Richmond, Michigan**

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## **Financial Report with Supplemental Information June 30, 2005**

# City of Richmond, Michigan

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## Independent Auditor's Report

To the Honorable Mayor and Members  
of the City Council  
City of Richmond, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Richmond, Michigan (the "City") as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of June 30, 2005 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison schedule, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.



A worldwide association of independent accounting firms

To the Honorable Mayor and Members  
of the City Council  
City of Richmond, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Plante & Moran, PLLC*

July 29, 2005

# **City of Richmond, Michigan**

## **Management's Discussion and Analysis**

Our discussion and analysis of the City of Richmond, Michigan's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2005. Please read it in conjunction with City's financial statements which follow.

### **Financial Highlights**

As discussed in further detail in the management's discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2005:

- Tax revenues, the City of Richmond's largest single revenue source, totaled \$2.5 million in the General Fund this year, representing an increase of 7.0 percent from last fiscal year. This increase primarily reflects the growing tax base of the community as the City continues to realize considerable residential, industrial, and commercial development. Between 1993 and 2004, the City has experienced an average annual increase of 9.4 percent in taxable value, from \$64 million in 1993 to almost \$172 million in 2004. However, the taxable value of the City would have been more than \$206 million if the Michigan constitutional amendment commonly known as "Proposal A" had not been enacted in 1994, resulting in a loss of potential revenue of \$560,000 in the 2004/2005 fiscal year based upon the City tax levy of 16.7296 mills.
- State-shared revenue, a major source of revenue for the City's General Fund, continued its downward trend of the past several years. The City received \$486,061 in the 2004/2005 fiscal year, a reduction of \$12,744, or 3 percent, from last year and a reduction of \$198,646, or more than 29 percent, from 2001/2002 funding levels. This revenue reduction is masked by the increase in tax revenues resulting from a growing tax base. However, the serious impact of decreasing state-shared revenues will become more apparent as tax base growth slows. The City's proactive response to the decline in state-shared revenue is to closely monitor and continually evaluate General Fund revenue trends as well as expenditure trends, especially in the areas of personnel benefit costs and staffing levels and discretionary programming and capital projects, in order to achieve economies of scale, operational efficiencies, cost reductions, and justification for capital expenditures.
- Total long-term liabilities for governmental activities is \$2.1 million, a reduction of \$327,000, or 13.7 percent, from the previous year. This reduction reflects a continuing effort by the City Council and administration to maintain a "pay-as-you-go" basis for funding General Fund, Streets, and Enterprise Funds capital projects to minimize the need to incur additional debt. The City now sets aside an amount equal to 2 mills of the general operating tax levy for completion of its 20+ year street improvement program and reviews water and sewer rate structures annually to ensure that use rates maintain acceptable levels of working capital while providing the funding necessary to complete 20+ year utility capital improvement programs.

# City of Richmond, Michigan

## Management's Discussion and Analysis (Continued)

- Total fund balances for the City's governmental funds increased approximately \$309,000 and represent planned and authorized reductions by the City Council to initiate new programs and undertake capital projects and acquisitions.

### Using this Annual Report

This annual report includes a series of financial statements. The statement of net assets and the statement of activities provide information about the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services. The activities are divided between governmental and business-type activities. Governmental activities include the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Projects Funds. Business-type activities include the Water and Sewer Funds.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

### The City of Richmond as a Whole

The following table shows a condensed format of the net assets (in thousands of dollars) as of June 30, 2005 and 2004:

	Governmental		Business-type Activities		Total	
	Activities		Activities			
	2005	2004	2005	2004	2005	2004
<b>Assets</b>						
Current assets	\$ 3,458	\$ 3,257	\$ 2,804	\$ 2,265	\$ 6,262	\$ 5,522
Noncurrent assets - Capital assets	6,223	5,324	13,574	13,276	19,797	18,600
Total assets	9,681	8,581	16,378	15,541	26,059	24,122
<b>Liabilities</b>						
Current liabilities	379	278	55	70	434	348
Long-term liabilities	2,094	2,383	-	-	2,094	2,383
Total liabilities	2,473	2,661	55	70	2,528	2,731
<b>Net Assets</b>						
Invested in capital assets - Net of related debt	4,288	2,941	13,574	13,276	17,862	16,217
Restricted	1,322	767	376	356	1,698	1,123
Unrestricted (deficit)	1,598	2,212	2,373	1,839	3,971	4,051
Total net assets	<u>\$ 7,208</u>	<u>\$ 5,920</u>	<u>\$ 16,323</u>	<u>\$ 15,471</u>	<u>\$ 23,531</u>	<u>\$ 21,391</u>

# City of Richmond, Michigan

## Management's Discussion and Analysis (Continued)

The City's combined net assets for both governmental and business-type activities total \$23 million for fiscal year 2005. Net assets are further segregated between restricted and unrestricted net assets. The restricted net assets, assets that are restricted for a specific purpose/use and invested in capital assets, total \$17 million. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations, total approximately \$4 million.

The following table shows the change in net assets for the years ended June 30, 2005 and 2004 (in thousands of dollars):

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
<b>Revenue</b>						
Program revenue:						
Charges for services	\$ 678	\$ 635	\$ 1,709	\$ 1,566	\$ 2,387	\$ 2,201
Operating grants and contributions	257	205	-	-	257	205
Capital grants and contributions	-	113	419	886	419	999
General revenue:						
Property taxes	3,029	2,957	-	-	3,029	2,957
State-shared revenues	796	838	-	-	796	838
Interest	55	30	41	22	96	52
Franchise fees	55	53	-	-	55	53
Miscellaneous	414	365	-	-	414	365
Transfers	25	25	(25)	(25)	-	-
Total revenue	5,309	5,221	2,144	2,449	7,453	7,670
<b>Program Expenses</b>						
General government	693	846	-	-	693	846
Public safety	1,649	1,575	-	-	1,649	1,575
Public works	865	787	-	-	865	787
Recreation and culture	599	588	-	-	599	588
Community development	136	171	-	-	136	171
Interest on long-term debt	79	127	-	-	79	127
Water and sewer	-	-	1,293	1,476	1,293	1,476
Total program expenses	4,021	4,094	1,293	1,476	5,314	5,570
<b>Change in Net Assets</b>	<b>\$ 1,288</b>	<b>\$ 1,127</b>	<b>\$ 851</b>	<b>\$ 973</b>	<b>\$ 2,139</b>	<b>\$ 2,100</b>

### Governmental Activities

Governmental activities are those activities (such as public safety or health and human services) provided to the constituents of the City and supported by financing from property taxes and state-shared revenues.



# **City of Richmond, Michigan**

## **Management's Discussion and Analysis (Continued)**

The cost of providing services for governmental activities was \$4.1 million for fiscal year 2005. Additionally, revenues for governmental activities totaled \$5.3 million, which netted to an increase in net assets for the year of \$1.2 million. This indicates that the users of today's services paid more than the full costs of operations during the year ended June 30, 2005.

### **Business-type Activities**

Business-type activities are those that are financed primarily by charges for services or user fees. The City's business-type activities consist of the Water and Sewer Funds; these types of operations are most similar to private businesses.

### **The City's Funds**

Our analysis of the City's major funds begins on pages 11 and 12, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. This includes the General Fund, Sidewalk Assistance Capital Projects Fund, Special Assessment Debt Service Fund, Water Fund, and Sewer Fund. The other nonmajor governmental funds are consolidated and reported under the column with that heading. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages and restricted revenues from grants or fees.

The General Fund pays for most of the City's governmental services. The most significant is the police department, which incurred expenses of approximately \$880,000 in 2005. The General Fund is supported primarily by property taxes and state-shared revenue.

### **Budgetary Highlights**

Over the course of the year, the City administration and City Council monitor the budget, and if necessary, amend the budget to take into account unanticipated events that occur during the year. As previously stated, fund balances related to the City's governmental funds increased \$107,000. The following provides specific details regarding the amendments:

- A total of \$99,464 was transferred from the General Fund unreserved fund balances to the Police Post Buildings and Grounds department to provide funding for major repairs to the police post HVAC and security systems and entrance walkways.

### **Capital Asset and Debt Administration**

At the end of fiscal year 2005, the City had \$17.7 million invested in capital assets (land, buildings, equipment, vehicles, and water and sewer lines). These assets are necessary to carry out the day-to-day operations of the City.

# **City of Richmond, Michigan**

## **Management's Discussion and Analysis (Continued)**

### **Economic Factors and Next Year's Budgets and Rates**

The national economy is demonstrating strong indications of recovery during 2004 and 2005. However, Michigan's fiscal crisis is entering its fifth year. State revenues are at their lowest since 1970. A majority of these reductions were self-inflicted. Enacted state tax cuts have eroded the State's ability to generate revenue; the State's fiscal reserves are depleted, and the state economic rebound is lagging behind the national recovery. During fiscal year 2004 and into 2005, the City anticipates level funding in state-shared revenues and grants. To date, these revenue reductions have been masked because of our growth and increased property tax revenues. To ensure sustainability of our operations, the City is closely monitoring reserve balances, revenues, and expenditures.

### **Contacting the City's Management**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the revenue it receives. If you have any questions about this report or need additional information, we invite you to contact the City of Richmond's finance department.

# City of Richmond, Michigan

## Statement of Net Assets June 30, 2005

	Primary Government			Component
	Governmental	Business-type	Total	Unit - Tax
	Activities	Activities		Increment
				Finance
				Authority
<b>Assets</b>				
Cash and cash equivalents (Note 3)	\$ 3,139,073	\$ 1,893,509	\$ 5,032,582	\$ 2,801,122
Receivables:				
Special assessments	106,337	12,975	119,312	-
Customers	-	457,812	457,812	492
Other governmental units	181,223	-	181,223	338,260
Prepaid items	31,526	63,276	94,802	-
Restricted cash and cash equivalents (Notes 3 and 7)	-	376,679	376,679	-
Capital assets (Note 4):				
Assets not being depreciated	120,000	157,042	277,042	406,037
Assets being depreciated - Net	6,103,194	13,416,856	19,520,050	-
Total assets	9,681,353	16,378,149	26,059,502	3,545,911
<b>Liabilities</b>				
Accounts payable	207,167	19,443	226,610	22,068
Accrued and other liabilities	172,120	35,438	207,558	11,801
Noncurrent liabilities (Note 6):				
Due within one year	482,062	-	482,062	235,000
Due in more than one year	1,612,157	-	1,612,157	815,000
Total liabilities	2,473,506	54,881	2,528,387	1,083,869
<b>Net Assets</b>				
Invested in capital assets - Net of related debt	4,287,590	13,573,898	17,861,488	406,037
Restricted:				
Streets and highways	450,647	-	450,647	-
Debt service	83,000	-	83,000	-
Capital improvements	788,681	376,679	1,165,360	-
Unrestricted	1,597,929	2,372,691	3,970,620	2,056,005
Total net assets	\$ 7,207,847	\$ 16,323,268	\$ 23,531,115	\$ 2,462,042

# City of Richmond, Michigan

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Functions/Programs</b>				
Governmental activities:				
General government	\$ 693,479	\$ 17,990	\$ -	\$ -
Public safety	1,648,885	313,622	-	-
Public works	865,120	180,888	99,014	-
Recreation and culture	599,099	145,590	8,646	-
Community development	135,222	19,771	148,990	-
Interest on long-term debt	78,997	-	-	-
Total governmental activities	4,020,802	677,861	256,650	-
Business-type activities:				
Water	518,820	718,485	-	248,417
Sewer	774,377	990,260	-	171,014
Total business-type activities	1,293,197	1,708,745	-	419,431
Total	<u>\$ 5,313,999</u>	<u>\$ 2,386,606</u>	<u>\$ 256,650</u>	<u>\$ 419,431</u>
Component unit - Tax Increment Finance Authority	<u>\$ 112,107</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

## General revenues:

Property taxes  
State-shared revenues  
Interest  
Franchise fees  
Miscellaneous

## Transfers

Total general revenues and transfers

## Change in Net Assets

**Net Assets** - Beginning of year

**Net Assets** - End of year

**Statement of Activities**  
**Year Ended June 30, 2005**

Net (Expense) Revenue and Changes in Net Assets			
Governmental Activities	Business-type Activities	Total	Component Unit - Tax Increment Finance Authority
\$ (675,489)	\$ -	\$ (675,489)	\$ -
(1,335,263)	-	(1,335,263)	-
(585,218)	-	(585,218)	-
(444,863)	-	(444,863)	-
33,539	-	33,539	-
(78,997)	-	(78,997)	-
(3,086,291)	-	(3,086,291)	-
-	448,082	448,082	-
-	386,897	386,897	-
-	834,979	834,979	-
(3,086,291)	834,979	(2,251,312)	-
-	-	-	(112,107)
3,029,301	-	3,029,301	1,035,068
796,302	-	796,302	-
54,463	41,122	95,585	40,518
55,449	-	55,449	-
414,334	-	414,334	2,200
24,540	(24,540)	-	-
4,374,389	16,582	4,390,971	1,077,786
1,288,098	851,561	2,139,659	965,679
5,919,749	15,471,707	21,391,456	1,496,363
<b>\$ 7,207,847</b>	<b>\$ 16,323,268</b>	<b>\$ 23,531,115</b>	<b>\$ 2,462,042</b>

# City of Richmond, Michigan

	Major Funds		
	Special Revenue Fund	Debt Service Fund	
	General Fund	Local Streets	Special Assessment
<b>Assets</b>			
Cash and cash equivalents (Note 3)	\$ 1,479,267	\$ 161,989	\$ 43,881
Accounts receivable - Special assessments	-	-	99,542
Prepaid items	30,177	-	-
Due from other funds (Note 5)	-	-	-
Due from other governmental units	146,400	14,989	-
Total assets	<u><u>\$ 1,655,844</u></u>	<u><u>\$ 176,978</u></u>	<u><u>\$ 143,423</u></u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts payable	\$ 79,515	\$ 90,449	\$ -
Accrued and other liabilities	135,194	1,349	-
Due to other funds	42,560	-	-
Deferred revenue (Note 8)	-	-	99,542
Total liabilities	257,269	91,798	99,542
<b>Fund Balances</b>			
Reserved:			
Library endowments	-	-	-
Prepaid items	30,177	-	-
Unreserved, reported in:			
General Fund	1,368,398	-	-
Special Revenue Funds	-	85,180	-
Debt Service Funds	-	-	43,881
Capital Projects Funds	-	-	-
Total fund balances	<u>1,398,575</u>	<u>85,180</u>	<u>43,881</u>
Total liabilities and fund balances	<u><u>\$ 1,655,844</u></u>	<u><u>\$ 176,978</u></u>	<u><u>\$ 143,423</u></u>

**Governmental Funds  
Balance Sheet  
June 30, 2005**

Other Nonmajor Governmental Funds	Total Governmental Funds
\$ 1,453,936	\$ 3,139,073
6,795	106,337
1,349	31,526
42,560	42,560
19,834	181,223
<u>\$ 1,524,474</u>	<u>\$ 3,500,719</u>
\$ 37,203	\$ 207,167
21,577	158,120
-	42,560
6,795	106,337
65,575	514,184
37,975	37,975
-	30,177
-	1,368,398
593,124	678,304
39,119	83,000
788,681	788,681
1,458,899	2,986,535
<u>\$ 1,524,474</u>	<u>\$ 3,500,719</u>

# City of Richmond, Michigan

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## **Governmental Funds** **Reconciliation of the Balance Sheet of Governmental Funds to the** **Statement of Net Assets** **Year Ended June 30, 2005**

<b>Total Fund Balances of Governmental Funds</b>	\$ 2,986,535
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	6,223,194
Long-term liabilities are not due and payable in the current period and are not reported in the funds:	
Bonds payable	(1,935,604)
Accrued interest payable	(14,000)
Compensated absences	(158,615)
Special assessment receivables are expected to be collected over several years and are not available to pay for current year expenditures	<u>106,337</u>
<b>Net Assets of Governmental Activities</b>	<b><u>\$ 7,207,847</u></b>



# City of Richmond, Michigan

	Major Funds		
	General Fund	Special Revenue Fund	Debt Service Fund
		Local Streets	Special Assessment
<b>Revenue</b>			
Property taxes	\$ 2,462,222	\$ -	\$ -
Special assessments	9,078	-	26,384
Federal sources	-	-	-
State sources	566,751	78,685	-
Charges for services	542,727	13,630	-
Interest and rent	29,971	1,296	6,705
Fines and forfeitures	93,138	-	-
Donations	8,998	-	-
Licenses and permits	184,223	-	-
Other	42,511	372	-
Total revenue	3,939,619	93,983	33,089
<b>Expenditures</b>			
Current:			
General government	585,146	-	-
Highways and streets	-	613,445	-
Public service	-	-	-
Public safety	1,412,880	-	-
Public works	538,769	-	-
Recreation and culture	283,481	-	-
Health and welfare	23,667	-	-
Capital outlay	-	-	-
Debt service:			
Principal retirement	119,557	-	25,000
Interest and fiscal charges	-	-	7,950
Total expenditures	2,963,500	613,445	32,950
<b>Excess of Revenue Over (Under) Expenditures</b>	976,119	(519,462)	139
<b>Other Financing Sources (Uses)</b>			
Proceeds from capital lease	-	-	-
Transfers in	22,896	506,958	-
Transfers out	(689,796)	-	-
Total other financing sources (uses)	(666,900)	506,958	-
<b>Net Change in Fund Balances</b>	309,219	(12,504)	139
<b>Fund Balances - Beginning of year</b>	1,089,356	97,684	43,742
<b>Fund Balances - End of year</b>	<b>\$ 1,398,575</b>	<b>\$ 85,180</b>	<b>\$ 43,881</b>

The Notes to Financial Statements are an Integral Part of this Statement.

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**Governmental Funds**  
**Statement of Revenue, Expenditures, and**  
**Changes in Fund Balances**  
**Year Ended June 30, 2005**

Other Nonmajor Governmental Funds	Total Governmental Funds
<hr/>	<hr/>
\$ 567,079	\$ 3,029,301
20,378	55,840
80,248	80,248
231,556	876,992
242,361	798,718
22,819	60,791
-	93,138
1,846	10,844
-	184,223
81,068	123,951
<hr/>	<hr/>
1,247,355	5,314,046
-	585,146
216,953	830,398
64,190	64,190
160,148	1,573,028
127,346	666,115
709,971	993,452
-	23,667
29,817	29,817
606,908	751,465
94,047	101,997
<hr/>	<hr/>
2,009,380	5,619,275
<hr/>	<hr/>
(762,025)	(305,229)
387,420	387,420
714,336	1,244,190
(529,854)	(1,219,650)
<hr/>	<hr/>
571,902	411,960
(190,123)	106,731
<hr/>	<hr/>
1,649,022	2,879,804
<hr/>	<hr/>
<b>\$ 1,458,899</b>	<b>\$ 2,986,535</b>

# City of Richmond, Michigan

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## **Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2005**

<b>Net Change in Fund Balances of Governmental Funds</b>	\$	106,731
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Capital outlay expenditures		1,187,814
Depreciation expense		(288,403)

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities		291,448
---	--	---------

Interest expense is recorded when incurred in the statement of activities		23,000
---	--	--------

Compensated absence liabilities are recorded when earned in the statement of activities		(2,806)
---	--	---------

Special assessment revenue is not recorded in the funds until received; these revenues are recorded as revenue when the project is substantially completed in the government-wide statements		(29,686)
--	--	----------

<b>Change in Net Assets of Governmental Activities</b>	<b>\$</b>	<b><u>1,288,098</u></b>
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# City of Richmond, Michigan

## Proprietary Funds Statement of Net Assets June 30, 2005

	Major Enterprise Funds		
	Water	Sewer	Total
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 488,538	\$ 1,404,971	\$ 1,893,509
Receivables:			
Special assessments	-	12,975	12,975
Customers	183,592	209,339	392,931
Prepaid items	63,276	-	63,276
Total current assets	735,406	1,627,285	2,362,691
Noncurrent assets:			
Special assessments - Long-term portion	-	64,881	64,881
Restricted cash and cash equivalents (Note 7)	-	376,679	376,679
Capital assets being depreciated - Net	4,816,401	8,757,497	13,573,898
Total noncurrent assets	4,816,401	9,199,057	14,015,458
Total assets	5,551,807	10,826,342	16,378,149
<b>Liabilities - Current liabilities</b>			
Accounts payable	3,235	16,208	19,443
Accrued and other liabilities	20,163	15,275	35,438
Total current liabilities	23,398	31,483	54,881
<b>Net Assets</b>			
Invested in capital assets	4,816,401	8,757,497	13,573,898
Restricted (Note 7)	-	376,679	376,679
Unrestricted	712,008	1,660,683	2,372,691
Total net assets	<u>\$ 5,528,409</u>	<u>\$ 10,794,859</u>	<u>\$ 16,323,268</u>

# City of Richmond, Michigan

## Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2005

	Major Enterprise Funds		
	Water	Sewer	Total
<b>Operating Revenue</b>			
Usage fees	\$ 681,790	\$ 968,058	\$ 1,649,848
Tap-in fees	2,731	2,729	5,460
Penalties	9,789	13,525	23,314
Charges for services	20,061	-	20,061
Miscellaneous	4,114	5,948	10,062
Total operating revenues	718,485	990,260	1,708,745
<b>Operating Expenses</b>			
Administration	85,755	102,743	188,498
Infrastructure maintenance	1,169	-	1,169
Water production	87,077	-	87,077
Water system	215,030	-	215,030
Depreciation	129,789	232,821	362,610
Sewer treatment plant	-	299,198	299,198
Sewer system	-	139,615	139,615
Total operating expenses	518,820	774,377	1,293,197
<b>Operating Income</b>	199,665	215,883	415,548
<b>Nonoperating Revenue</b>			
Interest income	11,927	29,195	41,122
Connection fees	170,600	171,014	341,614
Total nonoperating revenue	182,527	200,209	382,736
<b>Income - Before operating transfers and contributions</b>	382,192	416,092	798,284
<b>Other Financing Sources (Uses)</b>			
Transfers in	17,000	-	17,000
Transfers out	(4,240)	(37,300)	(41,540)
Total other financing sources (uses)	12,760	(37,300)	(24,540)
<b>Capital Contributions</b>	77,817	-	77,817
<b>Net Change in Net Assets</b>	472,769	378,792	851,561
<b>Net Assets - Beginning of year</b>	5,055,640	10,416,067	15,471,707
<b>Net Assets - End of year</b>	<u>\$ 5,528,409</u>	<u>\$ 10,794,859</u>	<u>\$ 16,323,268</u>

# City of Richmond, Michigan

## Proprietary Funds Statement of Cash Flows Year Ended June 30, 2005

	Major Enterprise Funds		
	Water	Sewer	Total
<b>Cash Flows from Operating Activities</b>			
Receipts from customers and other funds	\$ 693,393	\$ 960,583	\$ 1,653,976
Payments to suppliers, employees, and other funds	(480,988)	(527,835)	(1,008,823)
Net cash provided by operating activities	212,405	432,748	645,153
<b>Cash Flows from Noncapital Financing Activities</b>			
Operating transfers in	17,000	-	17,000
Operating transfers out	(4,240)	(37,300)	(41,540)
Net cash provided by (used in) noncapital financing activities	12,760	(37,300)	(24,540)
<b>Cash Flows from Capital and Related Financing Activities</b>			
Collection of customer assessments (principal and interest)	-	12,976	12,976
Purchase of capital assets	(540,586)	(41,770)	(582,356)
Contributed capital from tap-in fees	170,600	171,014	341,614
Net cash provided by (used in) capital and related financing activities	(369,986)	142,220	(227,766)
<b>Cash Flows from Investing Activities - Interest received on investments</b>	11,927	29,195	41,122
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(132,894)	566,863	433,969
<b>Cash and Cash Equivalents - Beginning of year</b>	621,432	1,214,787	1,836,219
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 488,538</b>	<b>\$ 1,781,650</b>	<b>\$ 2,270,188</b>
<b>Balance Sheet Classification of Cash and Cash Equivalents</b>			
Cash and cash equivalents	\$ 488,538	\$ 1,404,971	\$ 1,893,509
Restricted assets	-	376,679	376,679
Total	<b>\$ 488,538</b>	<b>\$ 1,781,650</b>	<b>\$ 2,270,188</b>
<b>Reconciliation of Operating Income to Net Cash from Operating Activities</b>			
Operating income	\$ 199,665	\$ 215,883	\$ 415,548
Adjustments to reconcile operating income to net cash from operating activities:			
Depreciation	129,789	232,821	362,610
Changes in assets and liabilities:			
Customer receivables	(25,092)	(29,677)	(54,769)
Prepaid items	(63,276)	-	(63,276)
Accounts payable	(24,232)	14,077	(10,155)
Accrued liabilities	(4,449)	(356)	(4,805)
Net cash provided by operating activities	<b>\$ 212,405</b>	<b>\$ 432,748</b>	<b>\$ 645,153</b>
<b>Noncash Transactions - Contributions of capital assets from developers</b>	<b>\$ 77,817</b>	<b>\$ -</b>	<b>\$ 77,817</b>

# City of Richmond, Michigan

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## **Fiduciary Funds Statement of Assets and Liabilities June 30, 2005**

	Agency Funds
	<hr/>
<b>Assets</b>	
Cash	\$ 18,496
Taxes receivable	<hr/> 11,707
Total assets	<hr/> <b>\$ 30,203</b> <hr/>
<b>Liabilities</b>	
Accrued and other liabilities	\$ 22,791
Due to other governmental units	<hr/> 7,412
Total liabilities	<hr/> <b>\$ 30,203</b> <hr/>

### **Note I - Summary of Significant Accounting Policies**

The accounting policies of the City of Richmond, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City:

#### **Reporting Entity**

The City is governed by an elected seven-member council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable.

**Discretely Presented Component Units** - The following component units are reported within the component units column to emphasize that they are legally separate from the City.

- a. The Tax Increment Finance Authority was created to promote capital expansion within the City. The Authority's governing body is selected by the City Council. In addition, the Authority's budget is subject to approval by the City Council.
- b. The Economic Development Corporation was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to the residents of the City. The Economic Development Corporation was inactive during 2005 and has no assets or liabilities.

#### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. The effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.



### **Note 1 - Summary of Significant Accounting Policies (Continued)**

The statement of activities demonstrates the degree to which the direct expenses of a given function (governmental activities) or identifiable activity (business-type activities) is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or activity and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

#### **Measurement Focus and Basis of Accounting**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Revenues susceptible to accrual include property taxes, intergovernmental sources, and interest. All other revenue items are considered available only when the cash is received. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and expenditures relating to compensated absences are recorded only when payment is due.

### **Note I - Summary of Significant Accounting Policies (Continued)**

Property taxes, franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major funds:

#### **Governmental Funds**

- The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. General Fund activities are financed by revenue from general property taxes, state-shared revenue, and other sources.
- The Local Streets Special Revenue Fund accounts for the activities related to local street construction.
- The Special Assessment Debt Service Fund accounts for the annual payment of principal, interest, and expenses in connection with special assessment debt.

#### **Business-type Funds**

- The Water Fund accounts for the results of operations that provide water services to citizens and is financed by a user charge for the provision of those services.
- The Sewer Fund accounts for the results of operations that provide sewer services to citizens and is financed by a user charge for the provision of those services.

Additionally, the City reports the following funds:

**Special Revenue Funds** - Special Revenue Funds account for the revenues and expenditures related to major streets, local streets, fire department, housing and urban development, mausoleum, cemetery, parks and recreation, and parking.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

**Debt Service Funds** - Debt Service Funds account for the debt retirement activity of the governmental activities of the City for the general obligations and street improvements projects of the City.

**Capital Projects Funds** - Capital Projects Funds account for the development of capital facilities and equipment other than those financed by the operation of a proprietary fund. These projects include vehicle and repairs, equipment replacement, special assessments, street improvements, and other capital improvements of the City.

**Agency Funds** - Agency Funds are used to account for assets held by the City as an agent for individuals, organizations, other governments, or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private-sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private-sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

Proprietary funds distinguish operating revenue and expenses from nonoperating items. The principal operating revenue of the City's proprietary funds relates to charges to customers for sales and services. The Water and Sewer Funds also recognize the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating revenue expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

#### **Assets, Liabilities, and Net Assets or Equity**

**Cash and Cash Equivalents** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. The statement of cash flows includes both restricted and unrestricted cash and cash equivalents. Investments are stated at fair value, based on quoted market prices, or estimated fair value.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

**Property Taxes** - Properties are assessed as of December 31. The related property taxes are billed on July 1 and become a lien on December 1 of the following year. These taxes are due on August 31 with the final collection date of February 28 before they are added to the county tax rolls.

**Noncurrent Receivables** - Noncurrent receivables, such as special assessments, are recorded at full value and deferred revenue is recorded for the portion not available for use to finance operations as of year end.

**Inventories and Prepaid Items** - Payments for inventorable types of supplies are recorded as expenditures at the time of purchase. Normally, expenditures are not divided between years by the recording of prepaid expenses.

### Note 1 - Summary of Significant Accounting Policies (Continued)

**Capital Assets** - Capital assets, which include property, buildings, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and storm drains), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings	30-50 years
Vehicles and equipment	5-40 years
Utility systems	50 years
Infrastructure - Roads	25 years

**Compensated Absences** - The City allows employees to accumulate earned but unused sick and vacation pay benefits. Under the City's policies, employees earn benefits based on time of service with the City. The government-wide and proprietary statements accrue all vacation and sick pay as it is earned. A liability for these amounts is reported in governmental funds as it comes due for payment, generally when time is taken off or employees terminate.

**Long-term Obligations** - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Other accounting policies are disclosed in other notes to the financial statements.

### **Note 2 - Stewardship, Compliance, and Accountability**

**Budgetary Information** - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds.

The City adopts its budget on a departmental basis, which is in accordance with the State's legal requirement and is the level of classification detail at which expenditures may not legally exceed appropriations.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- Prior to the first regular board meeting in April, the City manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- A public hearing is conducted to obtain taxpayer comments.
- Prior to the second Monday in June, the budget is legally adopted by the City Council through adoption of the appropriation ordinance.
- The City manager is authorized to transfer budgeted amounts within the budgetary centers (activity); however, any revisions that alter the total expenditure of any budgetary center (activity) must be approved by the City Council.

### **Note 2 - Stewardship, Compliance, and Accountability (Continued)**

**Excess of Expenditures Over Appropriations in Budgeted Funds** - The City did not have significant expenditure budget variances.

### **Note 3 - Deposits and Investments**

Michigan Compiled Laws, Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The City is also allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the three highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The City has adopted an investment policy in accordance with state law.

The City has designated one bank for the deposit of local unit funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all of the investment options as allowed under the state statutory authority as listed above.

The City's deposits and investment policies are in accordance with statutory authority.

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

#### **Custodial Credit Risk of Bank Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At June 30, 2005, the City had \$1,353,756 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The City also holds bank deposits on behalf of its component unit that were uninsured and uncollateralized totaling \$1,863,876. The City and its component unit believe that due to the dollar amounts of cash deposits and limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City and its component unit evaluate each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

# City of Richmond, Michigan

## Notes to Financial Statements June 30, 2005

### Note 3 - Deposits and Investments (Continued)

#### Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City and its component unit have no investment policy that would further limit its investment choices. As of June 30, 2005, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
<b>Primary Government</b>			
Bank investment pool	\$ 3,774,542	Not rated	Not rated
Bank investment pool	155,738	Not rated	Not rated
Bank investment pool	131,033	Not rated	Not rated
<b>Component Unit</b>			
Bank investment pool	343,967	Not rated	Not rated

### Note 4 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2004	Additions	Disposals and Adjustments	Balance June 30, 2005
<b>Governmental Activities</b>				
Capital assets not being depreciated -				
Land	\$ 120,000	\$ -	\$ -	\$ 120,000
Capital assets being depreciated:				
Buildings	3,484,679	421,402	-	3,906,081
Infrastructure	529,974	690,086	-	1,220,060
Vehicles and equipment	3,223,306	76,326	-	3,299,632
Subtotal	7,237,959	1,187,814	-	8,425,773
Accumulated depreciation:				
Buildings	816,248	79,167	-	895,415
Infrastructure	21,199	48,802	-	70,001
Vehicles and equipment	1,196,729	160,434	-	1,357,163
Subtotal	2,034,176	288,403	-	2,322,579
Net capital assets being depreciated	5,203,783	899,411	-	6,103,194
Net capital assets	\$ 5,323,783	\$ 899,411	\$ -	\$ 6,223,194



# City of Richmond, Michigan

## Notes to Financial Statements June 30, 2005

### Note 4 - Capital Assets (Continued)

<b>Business-type Activities</b>	Balance July 1, 2004	Additions	Disposals and Adjustments	Balance June 30, 2005
Capital assets not being depreciated - Land	\$ 157,042	\$ -	\$ -	\$ 157,042
Capital assets being depreciated:				
Buildings	8,664,572	402,435	-	9,067,007
Utility systems	9,633,560	257,738	-	9,891,298
Vehicles and equipment	498,033	-	-	498,033
Subtotal	18,796,165	660,173	-	19,456,338
Accumulated depreciation:				
Buildings	2,688,183	143,338	-	2,831,521
Utility systems	2,842,361	183,476	-	3,025,837
Vehicles and equipment	146,328	35,796	-	182,124
Subtotal	5,676,872	362,610	-	6,039,482
Net capital assets being depreciated	13,119,293	297,563	-	13,416,856
Net capital assets	<u>\$ 13,276,335</u>	<u>\$ 297,563</u>	<u>\$ -</u>	<u>\$ 13,573,898</u>

Capital asset activity of the City's component unit was as follows:

<b>Component Unit Activities</b>	Balance July 1, 2004	Additions	Disposals and Adjustments	Balance June 30, 2005
Capital assets not being depreciated - Construction in progress	<u>\$ 121,036</u>	<u>\$ 747,431</u>	<u>\$ 462,430</u>	<u>\$ 406,037</u>

**Note 4 - Capital Assets (Continued)**

Depreciation expense was charged to programs of the primary government as follows:

## Governmental activities:

General government	\$ 21,807
Public safety	147,890
Public works	79,547
Community and economic development	8,991
Recreation and culture	<u>30,168</u>

Total governmental activities	<u><u>\$ 288,403</u></u>
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## Business-type activities:

Water lines	\$ 129,789
Sewer lines	<u>232,821</u>

Total business-type activities	<u><u>\$ 362,610</u></u>
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**Note 5 - Interfund Receivables, Payables, and Transfers**

The composition of interfund balances is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Due to/from other funds -		
Other governmental funds	General Fund	<u><u>\$ 42,560</u></u>

### Note 5 - Interfund Receivables, Payables, and Transfers (Continued)

Interfund balances represent routine and temporary cash flow assistance.

<u>Fund Transferred From</u>	<u>Fund Transferred To</u>	<u>Amount</u>
<b>Interfund Transfers</b>		
Governmental funds:		
General Fund	Nonmajor governmental funds	\$ 689,796
Nonmajor governmental funds	General Fund	22,896
	Local Streets Special Revenue Fund	506,958
	Nonmajor governmental funds	-
	Total nonmajor governmental funds	529,854
	Total operating transfers out from governmental funds	1,219,650
Business-type funds:		
Sewer Fund	Water Fund	17,000
	Nonmajor governmental funds	20,300
	Total Sewer Fund	37,300
Water Fund	Nonmajor governmental funds	4,240
	Total operating transfers out from business-type funds	41,540
	Total operating transfers out	\$ 1,261,190

### Note 6 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. City contractual agreements and installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a reassessment of the district) are received.

# City of Richmond, Michigan

## Notes to Financial Statements June 30, 2005

### Note 6 - Long-term Debt (Continued)

Long-term obligation activity is summarized as follows:

	Interest Rate	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
<b>Governmental Activities</b>					
General obligation bonds:					
1995 Road Bond:					
Amount of issue - \$3,065,000	4.75%-				
Maturing through 2009	7.20%	\$ 1,705,000	\$ (300,000)	\$ 1,405,000	\$ 350,000
1993 Unlimited Tax Refunding Bond:					
Amount of issue - \$2,285,000	5.50%-				
Maturing through 2005	5.65%	285,000	(285,000)	-	-
Special Assessment Bond:					
2001 Special Assessments Bonds - 33 Mile Road:					
Amount of issue - \$228,000	4.10%-				
Maturing through 2011	6.00%	175,000	(25,000)	150,000	25,000
Installment purchase obligations:					
Fire truck purchase					
Amount of issue - \$100,000					
Maturing through 2007	5.24%	62,052	(19,708)	42,344	20,697
Capital lease obligation:					
Community Center					
Amount of issue - \$387,420					
Maturing through 2018	0%	-	338,260	338,260	26,020
Subtotal		2,227,052	(291,448)	1,935,604	421,717
Other long-term obligations - Compensated absences		155,809	2,806	158,615	60,345
Total governmental activities		\$ 2,382,861	\$ (288,642)	\$ 2,094,219	\$ 482,062

Long-term obligation activity for the component unit is summarized as follows:

	Interest Rate	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
<b>Component Unit Debt</b>					
1995 Development Bond Series A:					
Amount of issue - \$1,200,000	5.60%-				
Maturing through 2009	6.30%	\$ 610,000	\$ (105,000)	\$ 505,000	\$ 115,000
1995 Development Bond Series B:					
Amount of issue - \$1,275,000	5.60%-				
Maturing through 2009	6.30%	655,000	(110,000)	545,000	120,000
Total component unit debt		\$ 1,265,000	\$ (215,000)	\$ 1,050,000	\$ 235,000

**Note 6 - Long-term Debt (Continued)**

Annual debt service requirements to maturity for the governmental bond and installment purchase obligations are as follows:

	Governmental Activities			Component Units		
	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 421,717	\$ 67,241	\$ 488,958	\$ 235,000	\$ 57,606	\$ 292,606
2007	422,667	48,495	471,162	255,000	42,778	297,778
2008	401,020	29,700	430,720	280,000	26,320	306,320
2009	406,020	11,869	417,889	280,000	8,820	288,820
2010	51,020	2,325	53,345	-	-	-
2011- 2018	233,160	1,175	234,335	-	-	-
Total	<u>\$ 1,935,604</u>	<u>\$ 160,805</u>	<u>\$ 2,096,409</u>	<u>\$ 1,050,000</u>	<u>\$ 135,524</u>	<u>\$ 1,185,524</u>

The special assessment bonds represent the financing of public improvements that benefit specific districts; these districts are specially assessed, at least in part, for the cost of the improvements. There is approximately \$100,000 of special assessments receivable in the future reported in the Special Assessment District Fund; the amount of receivables delinquent at June 30, 2005 is not significant. In addition, there is approximately \$44,000 set aside in the Special Assessment District Fund for repayment of these bonds. Under Michigan law, the City is secondarily liable for payment of these bonds.

**Interest** - The interest incurred for the City for the year approximated \$102,000.

**Defeased Debt** - In prior years, the City defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the basic financial statements. At June 30, 2004, \$285,000 of bonds outstanding are considered defeased.

**Note 6 - Long-term Debt (Continued)**

**Capital Lease** - The City has entered into a lease agreement as lessee for financing the purchase of a community center from the Tax Increment Financing Authority. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date. The future minimum lease obligations and the net present value are as follows:

<u>Years Ending June 30</u>	<u>Amount</u>
2006	\$ 26,020
2007	26,020
2008	26,020
2009	26,020
2010	26,020
2011-2018	<u>208,160</u>
Total minimum lease payments	338,260
Less amount representing interest	<u>-</u>
Present value	<u><u>\$ 338,260</u></u>

**Note 7 - Restricted Assets**

Restricted assets at June 30, 2005 consist of cash and cash equivalents that are restricted for future capital needs for the sewer treatment plant as required by the Environmental Protection Agency regulations. Retained earnings have been reserved for restricted assets.

**Note 8 - Deferred Revenue**

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the entire amount of deferred revenue relates to special assessments and is unavailable to liquidate liabilities of the current period.

# City of Richmond, Michigan

## Notes to Financial Statements June 30, 2005

### Note 9 - Commitments

The City entered into an agreement with Lenox Township for the ability to tax an area of land. This agreement was modified during the year ended June 30, 1999. The modified agreement requires annual payments through September 1, 2018 totaling 3.6 mills of the total assessed value of the area purchased. At June 30, 2005, the assessed value of the area approximated \$35,145,000. Future installment payments have been estimated assuming inflationary increases of 3 percent. The City paid \$119,557 during the year ended June 30, 2005.

The annual payment requirements to service the agreement as of June 30, 2005 are as follows:

2006	\$ 117,906
2007	124,101
2008	127,824
2009	131,659
2010	135,609
2011-2015	741,562
2016-2020	<u>677,426</u>
Total	<u>\$ 2,056,087</u>

### Note 10 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for property loss, torts, errors and omissions, and medical benefit claims and participates in the Michigan Municipal League risk pool for claims relating to workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past four fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

### Note 11 - Defined Contribution Pension Plan

The City provides pension benefits to all of its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. As established by council resolution, the City contributes 10 percent of employees' gross earnings and employees have to contribute at least 5 percent. In accordance with these requirements, the City contributed \$124,854 during the current year, and employees contributed \$93,534.

### Note 12 - State Construction Code Act

The City tracks the results of building department operations in the General Fund. In accordance with Michigan Public Act 245 of 1999, the City is required to maintain an accounting system that separately accumulates revenue and expenditures related to the building department function. As required under provision of the Act, the City adopted this accounting treatment effective January 1, 2000. Activity for the year ended June 30, 2005 was as follows:

<b>Accumulated Expenditures Over Revenue - July 1, 2004</b>	<b>\$ (34,423)</b>
2004-2005 building department activity:	
Current year revenue	124,662
Current year expenditures	<u>111,721</u>
Excess of revenue over expenditures	<u>12,941</u>
<b>Accumulated Expenditures Over Revenue - June 30, 2005</b>	<b><u><u>\$ (21,482)</u></u></b>



## **Required Supplemental Information**

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# City of Richmond, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Budget
<b><u>Revenue</u></b>				
<b>Property Taxes</b>				
Real and personal property taxes	\$ 2,432,912	\$ 2,432,912	\$ 2,444,633	\$ 11,721
Interest, penalties, and other	14,000	14,000	17,589	3,589
Total property taxes	2,446,912	2,446,912	2,462,222	15,310
<b>Licenses and Permits</b>				
Building permits	42,500	42,500	63,104	20,604
Electrical and plumbing permits	37,000	37,000	39,573	2,573
Cable television franchise fee	51,200	51,200	56,754	5,554
Other	24,202	24,202	24,792	590
Total licenses and permits	154,902	154,902	184,223	29,321
<b>State Sources</b>				
Revenue-sharing	493,348	493,348	486,061	(7,287)
Library	7,200	7,200	8,646	1,446
State grants	40,440	61,440	68,742	7,302
Liquor license fees	3,100	3,100	3,302	202
Total state sources	544,088	565,088	566,751	1,663
<b>Charges for Services</b>				
Trash collection	141,000	141,000	150,433	9,433
Fees	13,100	13,100	21,509	8,409
Rentals	285,163	285,163	370,785	85,622
Total charges for services	439,263	439,263	542,727	103,464

# City of Richmond, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Budget
<b>Revenue</b> (Continued)				
<b>Fines and Forfeitures</b>				
Traffic fines and penalties	\$ 31,700	\$ 31,700	\$ 57,653	\$ 25,953
Library fines	28,300	28,300	35,485	7,185
Total fines and forfeitures	60,000	60,000	93,138	33,138
<b>Donations</b>	3,000	3,000	8,998	5,998
<b>Interest</b>	18,000	18,000	29,971	11,971
<b>Other Revenue</b>				
Special assessment payments	7,465	9,078	9,078	-
Other	19,185	21,295	42,511	21,216
Total other revenue	26,650	30,373	51,589	21,216
Total revenue	3,692,815	3,717,538	3,939,619	222,081
<b>Other Financing Sources - Operating</b>				
transfers in	22,922	22,896	22,896	-
Total revenue and other financing sources	3,715,737	3,740,434	3,962,515	222,081

# City of Richmond, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Budget
<b><u>Expenditures</u></b>				
<b>General Government</b>				
City Council	\$ 37,765	\$ 37,765	\$ 35,069	\$ 2,696
Cable television	51,000	51,000	50,644	356
City manager	114,115	107,017	75,450	31,567
Elections	12,950	12,950	14,012	(1,062)
Assessor	47,109	47,109	44,466	2,643
Attorney	45,800	45,800	32,516	13,284
Clerk	90,227	90,227	89,105	1,122
Board of Review	2,580	2,580	2,327	253
Zoning Board of Appeals	1,750	1,750	243	1,507
Treasurer	61,313	61,313	56,922	4,391
Building and grounds	64,450	67,560	64,798	2,762
Building and grounds - Police	103,783	203,207	119,594	83,613
Total general government	632,842	728,278	585,146	143,132
<b>Public Safety</b>				
Police	932,569	956,569	880,310	76,259
Civil defense/emergency preparedness	6,860	6,860	5,722	1,138
Traffic and safety	21,935	21,935	20,813	1,122
Communications	228,962	228,962	227,997	965
Building code enforcement	129,064	129,064	111,721	17,343
Planning	74,802	74,802	85,779	(10,977)
Public service director	46,416	46,416	45,816	600
EMS	26,000	26,000	26,000	-
Community transit	8,649	8,649	8,722	(73)
Total public safety	1,475,257	1,499,257	1,412,880	86,377
<b>Public Works</b>				
Department of Public Works	653,436	704,861	330,773	374,088
Street lighting	69,467	71,080	74,836	(3,756)
Refuse collection and disposal	132,154	132,154	133,160	(1,006)
Total public works	855,057	908,095	538,769	369,326

# City of Richmond, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Budget
<b><u>Expenditures</u></b> (Continued)				
<b>Health and Welfare</b> - Economic development	\$ 51,789	\$ 51,789	\$ 23,667	\$ 28,122
<b>Recreation and Cultural</b> - Library	283,533	287,191	283,481	3,710
<b>Debt Service</b> - Principal	<u>119,557</u>	<u>119,557</u>	<u>119,557</u>	<u>-</u>
Total expenditures	3,418,035	3,594,167	2,963,500	630,667
<b>Other Uses</b> - Operating transfers out	<u>695,153</u>	<u>672,862</u>	<u>689,796</u>	<u>(16,934)</u>
Total expenditures and other uses	<u>4,113,188</u>	<u>4,267,029</u>	<u>3,653,296</u>	<u>613,733</u>
<b>Excess of Revenue and Other Financing Sources Over (Under) Expenditures and Other Uses</b>	(397,451)	(526,595)	309,219	835,814
<b>Fund Balance</b> - July 1, 2004	<u>1,089,356</u>	<u>1,089,356</u>	<u>1,089,356</u>	<u>-</u>
<b>Fund Balance</b> - June 30, 2005	<u><b>\$ 691,905</b></u>	<u><b>\$ 562,761</b></u>	<u><b>\$ 1,398,575</b></u>	<u><b>\$ 835,814</b></u>

# City of Richmond, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - Local Streets Fund Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Budget
<b><u>Revenue</u></b>				
<b>State Sources</b> - State grants	\$ 75,500	\$ 75,500	\$ 78,685	\$ 3,185
<b>Charges for Services</b> - Fees	2,500	5,640	13,630	7,990
<b>Interest</b>	600	600	1,296	696
<b>Other Revenue</b>	<u>-</u>	<u>-</u>	<u>372</u>	<u>372</u>
Total revenue	78,600	81,740	93,983	12,243
<b>Other Financing Sources</b> - Operating transfers in	<u>229,446</u>	<u>493,837</u>	<u>506,958</u>	<u>13,121</u>
Total revenue and other financing sources	308,046	575,577	600,941	25,364
<b><u>Expenditures</u></b>				
<b>Highways and streets</b>				
Capital improvements	209,446	562,209	511,067	51,142
Routine maintenance	63,516	64,675	60,366	4,309
Traffic services	8,581	8,581	6,834	1,747
Winter maintenance	18,427	30,286	29,930	356
Administration	<u>5,472</u>	<u>5,472</u>	<u>5,248</u>	<u>224</u>
Total highways and streets	<u>305,442</u>	<u>671,223</u>	<u>613,445</u>	<u>57,778</u>
<b>Excess of Revenue and Other Financing     Sources Over (Under) Expenditures</b>	2,604	(95,646)	(12,504)	83,142
<b>Fund Balance</b> - July 1, 2004	<u>97,684</u>	<u>97,684</u>	<u>97,684</u>	<u>-</u>
<b>Fund Balance</b> - June 30, 2005	<u><u>\$ 100,288</u></u>	<u><u>\$ 2,038</u></u>	<u><u>\$ 85,180</u></u>	<u><u>\$ 83,142</u></u>

## **Other Supplemental Information**

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# City of Richmond, Michigan

	Nonmajor Special Revenue Funds			
	Major Streets	Fire Department	Housing and Urban Development	Mausoleum
<b>Assets</b>				
Cash and cash equivalents	\$ 346,869	\$ 28,305	\$ -	\$ 53,565
Prepaid items	-	-	-	-
Accounts receivable - Special assessments	-	-	-	-
Due from other funds	-	8,000	-	-
Due from other governmental units	19,834	-	-	-
Total assets	<b>\$ 366,703</b>	<b>\$ 36,305</b>	<b>\$ -</b>	<b>\$ 53,565</b>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 7	\$ 2,631	\$ -	\$ -
Accrued and other liabilities	1,229	-	-	-
Deferred revenue	-	-	-	-
Total liabilities	1,236	2,631	-	-
<b>Fund Balances - Undesignated</b>	<b>365,467</b>	<b>33,674</b>	<b>-</b>	<b>53,565</b>
Total liabilities and fund balances	<b>\$ 366,703</b>	<b>\$ 36,305</b>	<b>\$ -</b>	<b>\$ 53,565</b>



**Other Supplemental Information  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2005**

Nonmajor Special Revenue Funds			Nonmajor Debt Service Funds	
Cemetery	Parks and Recreation	Parking	Debt Service	Street Improvements
\$ 142,330	\$ 16,580	\$ 512	\$ 5,415	\$ 33,704
-	1,349	-	-	-
-	-	-	-	-
-	10,291	-	-	-
-	-	-	-	-
<b>\$ 142,330</b>	<b>\$ 28,220</b>	<b>\$ 512</b>	<b>\$ 5,415</b>	<b>\$ 33,704</b>
\$ 772	\$ 9,524	\$ -	\$ -	\$ -
1,652	18,696	-	-	-
-	-	-	-	-
2,424	28,220	-	-	-
139,906	-	512	5,415	33,704
<b>\$ 142,330</b>	<b>\$ 28,220</b>	<b>\$ 512</b>	<b>\$ 5,415</b>	<b>\$ 33,704</b>

(Continued on next page)

# City of Richmond, Michigan

	Nonmajor Capital Projects Funds				
	WWTP				Capital Outlay
	Vehicle and Repairs	Equipment Replacement	Street Improvement	Sidewalk Assistance	
<b>Assets</b>					
Cash and cash equivalents	\$ 79,300	\$ 413,635	\$ 240,446	\$ 55,300	\$ -
Prepaid items	-	-	-	-	-
Accounts receivable - Special assessments	-	-	-	6,795	-
Due from other funds	-	-	-	-	24,269
Due from other governmental units	-	-	-	-	-
Total assets	<u><u>\$ 79,300</u></u>	<u><u>\$ 413,635</u></u>	<u><u>\$ 240,446</u></u>	<u><u>\$ 62,095</u></u>	<u><u>\$ 24,269</u></u>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 24,269
Accrued and other liabilities	-	-	-	-	-
Deferred revenue	-	-	-	6,795	-
Total liabilities	-	-	-	6,795	24,269
<b>Fund Balances - Undesignated</b>	<u>79,300</u>	<u>413,635</u>	<u>240,446</u>	<u>55,300</u>	<u>-</u>
Total liabilities and fund balances	<u><u>\$ 79,300</u></u>	<u><u>\$ 413,635</u></u>	<u><u>\$ 240,446</u></u>	<u><u>\$ 62,095</u></u>	<u><u>\$ 24,269</u></u>

**Other Supplemental Information  
Combining Balance Sheet  
Nonmajor Governmental Funds (Continued)  
June 30, 2005**

Nonmajor Permanent Fund		Total Nonmajor Governmental Funds	
Library Endowment			
\$	37,975	\$	1,453,936
	-		1,349
	-		6,795
	-		42,560
	-		19,834
<b>\$</b>	<b>37,975</b>	<b>\$</b>	<b>1,524,474</b>
\$	-	\$	37,203
	-		21,577
	-		6,795
	-		65,575
	37,975		1,458,899
<b>\$</b>	<b>37,975</b>	<b>\$</b>	<b>1,524,474</b>

# City of Richmond, Michigan

	Nonmajor Special Revenue Funds			
	Major Streets	Fire Department	Housing and Urban Development	Mausoleum
<b>Revenue</b>				
Property taxes	\$ -	\$ -	\$ -	\$ -
Special assessments	-	-	-	-
Federal sources	-	-	80,248	-
State sources	231,556	-	-	-
Charges for services	-	113,538	-	768
Interest	4,798	765	-	811
Donations	-	-	-	-
Other	651	3,043	-	-
Total revenue	237,005	117,346	80,248	1,579
<b>Expenditures</b>				
Current:				
Highways and streets	216,953	-	-	-
Public service	-	-	-	1,102
Public safety	-	160,148	-	-
Public works	-	-	78,048	-
Recreation and culture	-	-	387,420	-
Capital outlay	-	-	-	-
Debt service:				
Principal retirement	-	19,708	2,200	-
Interest and fiscal charges	-	3,181	-	-
Total expenditures	216,953	183,037	467,668	1,102
<b>Excess of Revenue Over (Under) Expenditures</b>	20,052	(65,691)	(387,420)	477
<b>Other Financing Sources (Uses)</b>				
Proceeds from capital lease	-	-	387,420	-
Transfers in	-	101,950	-	-
Transfers out	(40,000)	(22,896)	-	-
Total other financing sources (uses)	(40,000)	79,054	387,420	-
<b>Net Change in Fund Balances</b>	(19,948)	13,363	-	477
<b>Fund Balances - Beginning of year</b>	385,415	20,311	-	53,088
<b>Fund Balances - End of year</b>	<u>\$ 365,467</u>	<u>\$ 33,674</u>	<u>\$ -</u>	<u>\$ 53,565</u>

**Other Supplemental Information**  
**Combining Statement of Revenue, Expenditures, and Changes**  
**in Fund Balances - Nonmajor Governmental Funds**  
**Year Ended June 30, 2005**

Nonmajor Special Revenue Funds			Nonmajor Debt Service Funds	
Cemetery	Parks and Recreation	Parking	Debt Service	Street Improvements
\$ -	\$ -	\$ -	\$ 192,259	\$ 374,820
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
26,217	101,830	8	-	-
2,151	141	-	2,637	746
-	1,846	-	-	-
-	1,586	-	-	-
28,368	105,403	8	194,896	375,566
-	-	-	-	-
63,088	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	322,551	-	-	-
-	-	-	-	-
-	-	-	285,000	300,000
-	-	-	16,603	74,263
63,088	322,551	-	301,603	374,263
(34,720)	(217,148)	8	(106,707)	1,303
-	-	-	-	-
49,656	197,166	-	4,240	-
-	-	-	-	-
49,656	197,166	-	4,240	-
14,936	(19,982)	8	(102,467)	1,303
124,970	19,982	504	107,882	32,401
<b>\$ 139,906</b>	<b>\$ -</b>	<b>\$ 512</b>	<b>\$ 5,415</b>	<b>\$ 33,704</b>

(Continued on next page)

# City of Richmond, Michigan

	Nonmajor Capital Projects Funds					
	Vehicle and Repairs	WWTP Equipment Replacement	Special Assessment District	Street Improvement	Sidewalk Assistance	Capital Outlay
<b>Revenue</b>						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Special assessments	-	-	-	-	20,378	-
Federal sources	-	-	-	-	-	-
State sources	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Interest	1,024	5,727	-	2,926	1,093	-
Donations	-	-	-	-	-	-
Other	-	-	-	74,221	1,567	-
Total revenue	1,024	5,727	-	77,147	23,038	-
<b>Expenditures</b>						
Current:						
Highways and streets	-	-	-	-	-	-
Public service	-	-	-	-	-	-
Public safety	-	-	-	-	-	-
Public works	-	-	-	-	49,298	-
Recreation and culture	-	-	-	-	-	-
Capital outlay	19,864	9,953	-	-	-	-
Debt service:						
Principal retirement	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-
Total expenditures	19,864	9,953	-	-	49,298	-
<b>Excess of Revenue Over (Under)</b>						
<b>Expenditures</b>	(18,840)	(4,226)	-	77,147	(26,260)	-
<b>Other Financing Sources (Uses)</b>						
Proceeds from capital lease	-	-	-	-	-	-
Transfers in	39,139	20,300	-	281,885	20,000	-
Transfers out	-	-	-	(466,958)	-	-
Total other financing sources (uses)	39,139	20,300	-	(185,073)	20,000	-
<b>Net Change in Fund Balances</b>	20,299	16,074	-	(107,926)	(6,260)	-
<b>Fund Balances - Beginning of year</b>	59,001	397,561	-	348,372	61,560	-
<b>Fund Balances - End of year</b>	<u>\$ 79,300</u>	<u>\$ 413,635</u>	<u>\$ -</u>	<u>\$ 240,446</u>	<u>\$ 55,300</u>	<u>\$ -</u>

**Other Supplemental Information**  
**Combining Statement of Revenue, Expenditures, and Changes**  
**in Fund Balances - Nonmajor Governmental Funds (Continued)**  
**Year Ended June 30, 2005**

<u>Nonmajor Permanent Funds</u>		
<u>Cemetery Perpetual</u>	<u>Library Endowment</u>	<u>Total Nonmajor Governmental Funds</u>
\$ -	\$ -	\$ 567,079
-	-	20,378
-	-	80,248
-	-	231,556
-	-	242,361
-	-	22,819
-	-	1,846
-	-	81,068
-	-	1,247,355
-	-	216,953
-	-	64,190
-	-	160,148
-	-	127,346
-	-	709,971
-	-	29,817
-	-	606,908
-	-	94,047
-	-	2,009,380
-	-	(762,025)
-	-	387,420
-	-	714,336
-	-	(529,854)
-	-	571,902
-	-	(190,123)
-	37,975	1,649,022
<u>\$ -</u>	<u>\$ 37,975</u>	<u>\$ 1,458,899</u>

# City of Richmond, Michigan

## Other Supplemental Information Combining Statement of Assets and Liabilities Fiduciary Funds June 30, 2005

	Trust and Agency	Payroll	Total
<b>Assets</b>			
Cash	\$ 8,064	\$ 10,432	\$ 18,496
Taxes receivable	<u>11,707</u>	<u>-</u>	<u>11,707</u>
Total assets	<u><b>\$ 19,771</b></u>	<u><b>\$ 10,432</b></u>	<u><b>\$ 30,203</b></u>
<b>Liabilities</b>			
Accrued and other liabilities	\$ 12,359	\$ 10,432	\$ 22,791
Due to other governmental units	<u>7,412</u>	<u>-</u>	<u>7,412</u>
Total liabilities	<u><b>\$ 19,771</b></u>	<u><b>\$ 10,432</b></u>	<u><b>\$ 30,203</b></u>



July 29, 2005

Honorable Mayor and  
Members of the City Council  
City of Richmond  
68225 Main Street  
Richmond, MI 48062

Dear Mayor and Council Members:

We have recently completed our audit of the financial statements of the City of Richmond for the year ended June 30, 2005. As part of our audit, we offer the following comments and recommendations for your review and consideration.

In planning and performing our audit of the City of Richmond's financial statements, we considered the City's internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted a certain matter involving the internal control and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The matters noted are only those that came to our attention and, had our procedures in internal control-related matters been more extensive, other matters may have been noted. The functioning of internal control was assessed at a point in time and no assurances can be drawn that internal control is functioning or will continue to function beyond the point in time at which it was assessed.

**The following reportable condition is presented for your consideration:**

***Segregation of Duties*** – Due to the size of your community, the cash receipts and cash disbursements system of the City relies completely on the work of one to two employees; therefore, the access to cash and recording of the receipts and disbursements is not properly segregated between several employees. This allows for the opportunity to mishandle the cash of the City. We recognize complete segregation is probably cost prohibitive, but we recommend the City review the internal control process of the cash receipts and cash disbursements system and implement policies that would strengthen the internal controls over cash.

### **Other Items With Recommendations (Not Reportable Conditions)**

**The following items are not considered to be reportable conditions as defined above, but are presented for your consideration:**

### **OVERVIEW OF THE CITY'S FINANCIAL CONDITION**

During the year ended June 30, 2005, the City's General Fund revenues exceeded expenditures by approximately \$309,000. As a result, fund balance at June 30, 2005, increased to approximately \$1,399,000. The General Fund fund balance represents approximately 33 percent of the City's budgeted expenditures for the fiscal year ending June 30, 2005. In spite of financial challenges faced by many communities, the City is maintaining a solid financial position.

The City will continue to be faced with budgetary challenges such as legislative uncertainties and future capital equipment and infrastructure needs. As such, we encourage the City Council and administration to continue to closely monitor the budget and to accumulate a sufficient level of fund balance during favorable financial periods. Doing so will help ensure that the City is able to maintain an adequate level of working capital without affecting the level of services provided to citizens or the City's ability to meet infrastructure needs and future obligations.

### **STATE REVENUE SHARING**

The City has and will continue to feel the effects of the slow down in the State's economy. State shared revenue accounts for 12.2% of the City's total General Fund revenue. Because of slower than anticipated growth in the State's sales tax collections (the sole source of revenue sharing payments to local units of government) and the State's budget problems which have resulted in additional appropriation reductions to the revenue sharing line item in the State's budget, revenue sharing payments for the State's fiscal year ending September 30, 2004 and 2005 were less than originally projected.

Currently, the State's Executive 2005/2006 fiscal year budget recommendation includes funding of state shared revenue at the same level as the year 2004/2005 amounts. This budget includes several very significant assumptions which may not be realized. Additionally, it is generally acknowledged that the State's budget woes will continue for several more years. As a result, we continue to urge the City to be conservative in its estimation of state shared revenue as this line item in the State's budget remains vulnerable.

We will continue to update the City as developments occur.

### **INTERNAL CONTROL ITEMS**

During our testing, the following items were noted related to the City's accounting and internal control systems and may require attention:

- **General ledger adjustments** - During the current year, many adjustments were made at year-end to adjust beginning fund balance, special assessment receivables, unbilled revenue, prepaid expenses, deferred revenues, accounts receivables, interfund accounts, accounts payable and to correct mis-postings by the City. In addition, many of these accounts were not properly reconciled at June 30 to account for all activity posted through June 30. This type of accounting maintenance should be performed on a monthly basis by an individual in the finance department. Plante & Moran has assisted numerous municipal staff with the training and assistance necessary to perform these necessary procedures and we would be happy to discuss various alternatives with the Board.
- **Capital Assets bookkeeping** - The City has purchased the fixed asset module of Fund Balance in order to maintain the fixed assets of the City. While the information included in this module for the general fixed assets appears to be materially correct at year-end, the City should consider reviewing the set-up of these assets to determine that all items are being properly depreciated and accounted for to allow for proper reporting and audit documentation.
- **Wire Transfers** – Currently wire transfers can be created without supervisory approval. While the only types of transfers are for payroll, taxes, and internal transactions, the City should consider increasing oversight control of this feature by implementing an approval process prior to the transfer.

#### **RETIREE HEALTHCARE – Police Officers**

As you are aware, the City will provide post employment healthcare benefits to police department retirees. Currently, there is one eligible for these benefits and the City did not pay any premiums in the prior year related to this benefit.

The Governmental Accounting Standards Board has recently released Statement Number 45, Accounting and Reporting by Employers for Post Employment Benefits Other Than Pensions. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree healthcare, as well as any “other” post employment benefits (other than pensions). The intent of the new rules is to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. These new rules will apply to the government wide financial statements, rather than the individual fund level.

The promise to provide healthcare to retirees is very similar to the promise to provide an annual pension check. Similar to the current accounting for the pension systems, the new pronouncement will require the City to either obtain an actuarial valuation of the obligation to provide retiree healthcare benefits or do your own calculation. In addition, the City's funding status or the progress it has made in accumulating assets to pay for this liability will be disclosed in the financial statements. The changes required under GASB Statement 45 will be

Honorable Mayor and  
Members of the City Council  
City of Richmond

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July 29, 2005

effective for the City's year end June 30, 2009. We would be happy to assist the City in further understanding the provisions of GASB Statement 45.

**PUBLIC ACCOUNTING UPDATE -Change to the Deposit and Investment Footnote**

The Governmental Accounting Standards Board (GASB) recently issued GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. This statement expands the required report disclosures related to the City's deposits and investments. The City successfully implemented this new reporting standard in the June 30, 2005 financial report, accordingly the deposit and investment footnote to the financial statements has changed significantly from previous years

Once again, we would like to thank you for the opportunity to serve as auditors for the City. We truly appreciate the assistance we received from your staff during our audit and we enjoyed working with them throughout the audit. If you have any questions regarding any of the items above, please do not hesitate to contact us.

Very truly yours,

**PLANTE & MORAN, PLLC**

A handwritten signature in black ink that reads "David W. Herrington". The signature is written in a cursive, flowing style.

David W. Herrington

